

A Report of the  
New Jersey Education Reform Project

AN EVALUATION OF THE FISCAL IMPACT OF  
NEW JERSEY'S  
PUBLIC SCHOOL EDUCATION ACT OF 1975  
ON THE STATE'S LOW WEALTH AND  
URBAN SCHOOL DISTRICTS

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## INTRODUCTION

The last decade has witnessed more state school finance reforms than at any time in the 20th Century.<sup>1</sup> More than 20 states have significantly modified their state public school funding systems, in response to court suits, and the threat of court suits.

School finance reform in New Jersey was initiated by a group of low wealth urban school districts who were plaintiffs in the Robinson V. Cahill case. Based upon the existence of wide per pupil expenditure disparities among the state's 600 school districts and a strong relationship between property wealth and the level of expenditures per pupil, the New Jersey Supreme Court declared the Bateman Act public school funding system to be unconstitutional.

The Court ordered the legislature to define in operational terms the legislature's constitutional obligation to provide "a thorough and efficient system of free public schools for the instruction of all children in the State between the ages of five and eighteen years".<sup>2</sup> It also ordered the legislature to develop a new funding system to insure that each district would be enabled to meet the requirements of the system defined by the new legislation.

However, consistent with most other State Court decisions, the New Jersey Supreme Court decision failed to specify

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<sup>1</sup>Allan Odden, John Augenblick and Phillip E. Vincent, School Finance Reform in the State, 1976-1977, (Denver: Education Commission of the States, December 1976). p.i.

<sup>2</sup>N.J. Constitution, Article VIII, Section IV, Paragraph 1.

effective fiscal criteria to guide legislative action. It merely stated that the new system "must be understood to embrace that educational opportunity which is needed in the contemporary setting to equip a child for his role as a citizen and as a competitor in the labor market."<sup>3</sup> While the Court did not require equal protection for taxpayers, nor equal expenditures for children, nor the prohibition of the local property tax as a source of local school revenue, it did call for an equal educational opportunity for each child and accepted the view that dollar input significantly shaped that opportunity, having "...been shown no other viable criterion for measuring compliance with the constitutional mandate."<sup>4</sup>

On January 30, 1976 the Court declared the Public School Education Act of 1975 (chapter 212, Laws of 1975) to be facially constitutional, reserving its ultimate judgement regarding constitutionality to examination of actual events in the future.

The success of the new law was seen by the Court to be dependent on "the crucial role of the Commissioner and the State Board" in monitoring and evaluating local districts and mandating changes in procedures and budgets to overcome failures. "The fiscal provisions of the Act are to be judged as adequate or inadequate depending on whether they do or do not afford sufficient financial support", said the Court, cautioning that if local districts are not able to raise the necessary resources

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<sup>3</sup>Robinson V. Cahill, 303 A 2d at 295.

<sup>4</sup>Ibid 62 N.J. at 515-16, 303 A. 2d at 295.

to meet the constitutional requirement, that "the State must itself meet its continuing obligation."<sup>5</sup>

The purpose of this paper is to examine the new school finance formula from the perspective of the original Robinson plaintiffs, the state's low wealth and urban school districts. Inasmuch as the Court failed to establish criteria against which the new formula could be evaluated, Section I describes those criteria which are now commonly perceived by school finance scholars to be necessary components of effective reform legislation. Section II examines the adequacy of the level and composition of New Jersey's state aid to public schools, by comparison with the nation as a whole. Section III critically examines each of the elements of the state aid package, while Section IV focuses on what was left out. Section V describes the fiscal impact of the new law on the state's low wealth and urban districts. Section VI discusses what other states have done to address problems similar to those which face New Jersey. Section VII explains why the new law has failed to achieve the goal of the court and Section VIII recommends legislative changes to overcome that failure.

Most of all, the purpose of the paper is to reawaken the public consciousness with respect to the unresolved school finance issues in New Jersey. Subsequent studies which are now in progress will include: an examination of New Jersey's expenditure cap; an analysis of the state's unmet school facility needs; and a detailed analysis of the 1977/78 school year fiscal results.

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<sup>5</sup> 303 A 2d 294 1973.

## I. WHAT MAKES A GOOD STATE AID PLAN

When States embark upon serious school finance reform efforts, their major goals are to reduce interdistrict disparities in expenditures per pupil and school tax rates. Some states also try to respond to taxpayer demands for general property tax relief. Expenditure disparities can be reduced either by "levelling down" the expenditures of the high spending districts, or "levelling up" the expenditures of the low spending districts. However the resistance to "levelling down" by the residents of the high spending districts, as well as by teacher and administrator associations and education officials, generally leads to reform efforts which seek to raise the expenditures per pupil in the low spending districts while maintaining the level of expenditures in the high spending districts. While a "levelling down" program tends to reduce the need for additional state school aid, a "leveling up" program requires relatively large increases in the level of state school aid, in order to assist those districts whose property wealth per pupil is too low to support expenditure increases. The necessary increases in state aid can be minimized by shifting the composition of aid from disequalizing elements which benefit property rich districts, to equalizing elements which benefit property poor districts. However the political process often makes that impossible.

The desire of legislators to minimize the total amount of state aid, and the desire of property rich districts to retain their advantages, are often in conflict with the professed

goal of reducing expenditure and tax disparities. As a result, school finance reform legislation often lacks the basic ingredients necessary to achieve their major goals. Recognizing this dilemma, the National Education Finance Project formulated the following set of principles which are generally accepted by school finance reformers and scholars as the essential elements necessary for a successful program:<sup>6</sup>

1. A flat grant model is the least equalizing.<sup>7</sup>
2. An equalization model<sup>8</sup> should include adjustments for program cost differentials.<sup>9</sup>
3. In equalization models, the greater the local tax leeway the less the equalization.
4. The higher the percentage of state aid, the greater the equalization of resources among districts.

Joel Berke one of the nation's foremost school finance scholars, added the following essential ingredients.<sup>10</sup>

1. The high cost of non-education expenditures in urban centers must be recognized as an impediment to fiscal capacity equality.
2. Area cost and pupil needs differentials must be recognized.

<sup>6</sup> Future Directions for School Finance, (Gainesville, Florida: National Education Finance Project, 1971), pp.54-55.

<sup>7</sup> A flat grant provides the same amount for each pupil regardless of the property wealth of the district.

<sup>8</sup> An equalization model is one in which the state guarantees each district at least a specified amount of property wealth behind each child.

<sup>9</sup> States frequently recognize the extra costs of such programs as special education, bilingual education, compensatory education and vocational education, through various forms of additional state aid.

<sup>10</sup> Joel S. Berke, Answers to Inequity, (Berkely, California: McCutcheon Publishing Corporation, 1974).



In his attempt to establish criteria for the evaluation of state school finance reform efforts, Professor Hickrod stressed the need to look at both the level of state aid as well as its composition.<sup>11</sup> The composition may be largely equalizing but the level too low to have much impact. Conversely, the state aid level may be high, but contain a large proportion of disequalizing payments.

Although these are all valuable principles and can act as general guidelines, they still do not answer three fundamental questions: How much state aid is enough? What should be the percentage of state aid? What proportion of that state aid should be for equalization of wealth disparities? There are no firm answers to those questions. However a state embarked on school finance reform can at least look for guidance to the results in other states which have already completed their reforms.

## II. THE LEVEL AND COMPOSITION OF STATE AID IN NEW JERSEY AND NATIONWIDE

The administration is proud of the fact that New Jersey increased state aid to public education from 29% in 1975/76 to 41% in 1977/78, an increase of \$460 million. This achievement is somewhat diminished by the fact that if the former unconstitutional Bateman Act had been allowed to continue into 1977/78, total state aid would have increased automatically by about

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<sup>11</sup>G. Alan Hickrod, Ben C. Hubbard, Thomas Wei-Chi Yang, The 1973 Reform of the Illinois General Purpose Grant-in-Aid: A Description and an Evaluation, (Normal, Illinois: Dept. of Educ. Admin., Illinois State Univ., 1975), p.25.

\$200 million. Even more significant is the fact that when one compares New Jersey's post reform results with the rest of the country, New Jersey is still far behind.

In 1975/76, the average state share of total state and local school expenditures for all states was 50% (See Table 1). The average share of the 18 states which had gone through school finance reform efforts was 54%, up from an average of 39% in the last year before reform. Even in Texas, where school finance reformers lost as a result of the Rodriguez decision, the state increased its share to 51% in 1975/76, and has increased it further since that date.

The 41% share which the state contributes to local districts in New Jersey not only is far less than the average of the 18 reform states, but it is far below the average of the nation as a whole, including those states which have not engaged in reform efforts.

However, the percentage of state aid is only one way of judging a formula's equalizing power; Hickrod warned, one must also examine how the state aid is distributed, regardless of the total amount.

A comparison of the composition of state aid in 1974/75, with the composition in 1977/78 is shown in Table 2. The total amount of state aid during this period increased by \$442 million from 32% under the Bateman Act, to 41% under the new law. The portion of state aid devoted to wealth equalization also increased, from 30% of total aid to 53% of total aid. However,

TABLE 1  
STATE SHARES OF STATE AND LOCAL EDUCATION FUNDS  
IN SCHOOL FINANCE REFORM STATES

<u>STATE</u>	<u>DATE OF REFORM</u>	<u>STATE SHARE OF TOTAL STATE &amp; LOCAL EXPENDITURES IN:</u>		
		<u>LAST YEAR BEFORE REFORM</u>	<u>FIRST YEAR AFTER REFORM</u>	<u>1975/76</u>
Arizona	1974	42.0%	54.6%	61%
California	1972	36.7%	45.3%	45%
Colorado	1973	28.9%	39.9%	47%
Connecticut	1975	24.2%	N.A.	28%
Florida	1973	61.3%	62.5%	60%
Illinois	1973	39.3%	44.3%	52%
Indiana	1975	36.2%	N.A.	55%
Iowa	1971	32.5%	36.3%	48%
Kansas	1973	29.8%	47.7%	40%
Maine	1973	38.6%	38.5%	50%
Michigan	1973	49.4%	52.9%	41%
Minnesota	1971	50.7%	60.9%	70%
Montana	1973	27.5%	43.8%	60%
New Mexico	1974	74.5%	77.8%	87%
North Dakota	1973	32.2%	46.1%	67%
Texas	1975	46.1%	N.A.	51%
Utah	1973	58.4%	61.9%	72%
Wisconsin	1973	31.8%	39.0%	36%
State Average		39.0	51.0 (est.)	54.0
50 State Average				50.0

Source:

1. John J. Callahan and William W. Wilken, School Finance Reform: A Legislator's Handbook, (Washington D.C.: The National Conference of State Legislatures, 1976), p.8.
2. Public School Finance Programs, 1975-76, (Washington, D.C. U.S. Office of Education, 1976), p.4 & 14-15.

the proportion of wealth equalizing elements in the new plan is still far below the national average. The wealth equalizing elements in 1977/78 account for only 53% of total state aid in New Jersey compared to a national average of 68%.<sup>12</sup>

In 1977/78, \$586,000,000, or 47% of all state aid, was distributed to all districts equally regardless of property wealth, thus contributing to expenditure disparities resulting from wealth inequality.

New Jersey's state aid plan is clearly deficient in at least two critical respects. The state share of total expenditures is now only 41%, compared to a national average of 50%, and the portion of state aid devoted to equalizing property wealth differentials is only 53%, compared to a national average of 68%. Further discussion will demonstrate that even the equalizing elements have serious deficiencies.

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<sup>12</sup>Public School Finance Programs, 1975/76, (Washington, D.C.: Office of Education, 1976), p.15.

TABLE 2  
NEW JERSEY STATE AID COMPOSITION, 1974/75 - 1977/78

<u>Equalizing Aid</u>	<u>1974/75</u>		<u>1977/78</u>	
Current Expenses	\$215,000,000	26%	\$619,000,000	49%
Capital & Debt	<u>32,000,000</u>	<u>4</u>	<u>53,000,000</u>	<u>4</u>
Total Equalizing Aid	<u>\$247,000,000</u>	<u>30%</u>	<u>\$672,000,000</u>	<u>53%</u>
<u>Non-Equalizing Aid</u>				
Pensions	\$172,000,000	21%	\$246,000,000	20%
Minimum Aid	234,000,000	29	60,000,000	5
Save Harmless Aid	7,000,000	1		
Categorical Programs				
Special Education	60,000,000	7	73,000,000	6
Compensatory Education			57,000,000	5
Bilingual Education			6,200,000	-
Vocational Education	<u>10,000,000</u>	<u>1</u>	<u>4,400,000</u>	<u>-</u>
Total Categorical Aid	<u>70,000,000</u>	<u>8</u>	<u>140,600,000</u>	<u>11</u>
Transportation	46,000,000	6	87,000,000	7
Other	<u>40,000,000</u>	<u>5</u>	<u>52,400,000</u>	<u>4</u>
Total Non-Equalizing Aid	<u>\$69,000,000</u>	<u>70</u>	<u>\$86,000,000</u>	<u>47</u>
Grand Total	<u>\$816,000,000</u>	<u>100%</u>	<u>\$1258,000,000</u>	<u>100%</u>
% State Support	<u>32%</u>		<u>41%</u>	

Source:  
 N.J. State Department of Education

### III. THE ELEMENTS OF STATE AID IN NEW JERSEY

#### Equalizing Elements

##### Current Expense

New Jersey equalization aid in 1977/78 included \$619 million for reimbursement of district current expenses and \$53 million for reimbursement of district capital and debt expenditures. Both figures are calculated through the use of the State Support Ratio, a ratio which is based upon the extent to which a district's actual property tax base per pupil, falls below the state's guaranteed property tax base per pupil.<sup>13</sup>

In 1977/78 the state guaranteed property tax base per pupil was \$97,000. Districts which have less than this amount receive equalization support based on a ratio of the difference between their actual property wealth per pupil and the guaranteed level.<sup>14</sup> This state aid ratio is applied to that portion of a district's prior year's net current expense budget<sup>15</sup> which is not in excess of the state support limit.<sup>16</sup> However in addition to the fact that the formula equalizes the tax base of

<sup>13</sup> The state guaranteed property tax base per pupil is 1.35 times the state average valuation per pupil. Chapter 212, section 18A:7A-3.

<sup>14</sup> For example: Jersey City's equalized property valuation on 10/1/76 was \$35,301 per pupil. The state aid share was calculated as follows:  $1.00 - (35,301 \div 97,000) = 63.61\%$ .

<sup>15</sup> The Net Current Expense Budget is defined as the Current Expense Budget, minus: state categorical program aid; transportation expense included in the current expense budget; and all other district revenue except state aid for transportation.

<sup>16</sup> The state support limit means the sixty-fifth percentile net current expense budget per pupil for the pre-budget year when all district figures are ranked from low to high." Chapter 212, 18A:7A-3.

only two thirds of the state's school districts, thereby allowing the remaining third to continue to enjoy high expenditure levels along with relatively low tax rates, the formula contains several other serious disadvantages for low wealth districts.

Districts which must increase their expenditures substantially, in order to achieve a state required "thorough and efficient" system, are inhibited in three respects. First there is a cap on annual increases in expenditures. Secondly, the state will only support expenditures up to the statewide 65th percentile, regardless of area cost differentials or pupil needs differentials. Third, because the state aid is a percentage of the prior year's expenditures, districts must finance a following year's increase exclusively from their own property base without further state aid. Although wealthy districts can do so with ease, for very low wealth districts this is a very significant obstacle.

This means that if Hoboken, for example, which now spends about average for an urban district, wishes to seriously undertake its responsibilities under the "T&E" regulations, it would be prevented from doing so by several fiscal constraints. Hoboken, as most urban districts, has very high concentrations of low achieving children. If Hoboken wishes to provide these children with the same services available to low achieving children in wealthier, higher spending districts, it would have to increase its expenditures substantially. It would have to finance the increased expenditures without any additional state

aid in the first year, exclusively from its very low tax base, thus causing a very substantial tax increase. For example an increase of only \$300 per pupil in 1977/78 would have necessitated an increase in their school tax rate in 1977 from \$2.31 to \$3.39.<sup>17</sup> Further, in the subsequent year, if Hoboken were spending above the 65th percentile limit, it would receive no state aid for its expenditures above that level, even though its needs were greater than the average district and even though Hoboken is located in the county with the highest teacher salary guide in the state. Finally, Hoboken is constrained by its "municipal overburden" problem, by a non-school tax rate almost three times the state average, and an understandable desire to reduce its total tax rate.

While low wealth, urban districts like Hoboken, are significantly inhibited by the new law from raising the resources necessary to provide a "thorough and efficient" education, the state's property rich districts, which can raise large amounts per pupil with relatively low tax rates, are given still further assistance by the state, under a rule which states that no district will receive less "equalization" aid than 10% of the 65th percentile figure, regardless of the amount of its property wealth. In 1977/78 this "minimum" equalization aid to wealthy districts amounted to approximately \$60 million.

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<sup>17</sup> \$300 ÷ Equalized Assessed Valuation Per Pupil of \$27,654 as of 10/1/77.



### Capital and Debt

When Judge Botter found the State school aid system unconstitutional, he recognized the impact of school facilities on student behavior in the following section of his decision:<sup>18</sup>

Also discussed was the low self esteem of children from poor neighborhoods who begin their first contact with American government by entering ancient, dilapidated buildings. Perhaps they ask themselves, "Is this what my state thinks of me?"

Judge Weintraub's affirming opinion made it clear that "The State's obligation includes as well the capital expenditures without which the required educational opportunity could not be provided."<sup>19</sup>

State aid for capital expenditures in New Jersey now consists of two elements: formula aid from chapter 212; and "emergency school building aid." Between 1974/75 and 1977/78 formula aid increased from \$32 million to \$53 million, while "emergency aid" increased from \$11 million to \$16 million (see Table 3). As a result, total state aid increased during this period from 22.5% to 30.3% of district capital and debt expenditures.

Each district's formula aid is calculated by applying the same state support ratio used to calculate current expense equalization aid, to the district's debt service and capital outlay of the prior year. "Emergency aid" is based on relative need.

New Jersey's aid for capital expenditures is deficient in several respects. The level of aid is inadequate. In 1977/78

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<sup>18</sup> Superior Court of New Jersey Law Division, Hudson County, p.42.

<sup>19</sup> New Jersey Supreme Court Declares the State's System of Financing The Public Schools to be Unconstitutional, (Trenton, N.J. School Boards Association,) p.49.

TABLE 3

NEW JERSEY EXPENDITURES AND STATE AID FOR SCHOOL FACILITIES1974/75 - 1977/78

	<u>1974/75</u>	<u>1977/78</u>
<u>District Capital Outlay and Debt Service</u>		
Capital Outlay	\$ 15,160,576 <sup>1</sup>	\$ 24,099,219 <sup>4</sup>
Debt Service	166,679,137 <sup>1</sup>	187,644,210 <sup>4</sup>
Emergency Aid Expenditures	<u>11,471,923<sup>1</sup></u>	<u>15,850,606<sup>3</sup></u>
Total	<u>\$193,311,636</u>	<u>\$227,594,035</u>
<u>State Aid</u>		
Formula Aid	\$ 32,140,565 <sup>1</sup>	\$ 53,193,478 <sup>2</sup>
Emergency Aid	<u>11,471,923<sup>1</sup></u>	<u>15,850,606<sup>3</sup></u>
Total	<u>\$ 43,612,488</u>	<u>\$ 69,044,084</u>
<u>% of State Aid to Total Expenditures</u>		
Formula Aid	16.8%	23.3%
Emergency Aid	<u>5.9</u>	<u>7.0</u>
Total	<u>22.5%</u>	<u>30.3%</u>
<u>Enrollment</u>	\$ 1,475,000 <sup>5</sup>	\$ 1,383,494 <sup>4</sup>
<u>Capital and Debt Expenditure per pupil</u>	\$ 131.06	\$ 164.51
<u>Aid Per Pupil</u>	\$ 29.57	\$ 49.91

- Sources: 1. 24th Annual Report of the Commissioner of Education 1974-75.  
 2. 1977/78 State Aid Calculation - Division of Administration and Finance.  
 3. SDOE Memorandum.  
 4. 1978/79 State Aid Calculation - Division of Administration and Finance.  
 5. NJEA Basic Statistical Data, 1975.

New Jersey gave local districts an average of \$49.91 per pupil. By comparison, in 1975/76, Massachusetts contributed \$95.90, Maryland \$101.42, Florida \$107.35, New York \$108.13, Illinois \$156.16 and Hawaii \$364.61.<sup>20</sup> The composition is inadequate because only 23% of total aid is based upon relative need, while the balance is paid to districts as a percentage of their total facility expenditures regardless of need.

Because formula aid is based upon prior year expenditures, a district which wishes to increase capital outlay and debt service above the prior year level, must rely exclusively upon its local property base for one year. The necessary tax rate increase makes such action virtually impossible for low wealth districts. Further, state aid is limited to 1% of the sum of the prior year current expense and capital outlay, regardless of the actual facilities needs in a particular district. As a result of these deficiencies, the current plan is particularly onerous for the state's urban districts.

One third of New Jersey's 2,502 school buildings were built before 1924. The urban centers have the highest proportion of these buildings. In Atlantic City 71% of the buildings are over 50 years old, in Camden 58%, in Paterson 66% and in Newark 60%.<sup>21</sup> Because of the very low property wealth in these cities, they have neither been able to replace, rehabilitate nor maintain their buildings to the extent possible in wealthier

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<sup>20</sup> These figures were calculated by dividing total state aid for capital and debt as reported in Public School Finance Programs 1975/76, by state pupil enrollment in the Statistical Abstract of the United States.

<sup>21</sup> Aaron S. Gurwitz, Toward Thorough and Efficient Capital Outlay, (Newark: The New Jersey Education Reform Project 1975) p.127.

districts. Because the chapter 212 formula fails to recognize differences in needs among districts, it lacks the capacity to provide the resources necessary to meet urban capital needs. Although "emergency aid" does recognize relative needs, the amount of this aid is far too little to meet current unmet capital needs.

### Non-Equalizing Elements

#### Pension Aid

The total amount of non-equalizing aid in 1977/78 was \$586 million, which includes pensions, minimum aid and several categorical programs. State assumption of pension costs in the amount of \$246 million represents the single largest non-equalizing element in state aid to education.

Pension costs are an even more insidious disequalizing element than the commonly criticized flat grant per pupil. A flat grant per pupil is criticized because each district receives the same amount per pupil, regardless of property wealth. The result is that additional expenditures must be raised by high tax rates in low wealth districts, while high wealth districts can raise equal or greater expenditure levels with far lower rates.

State assumption of pension costs is even more disequalizing than flat grants because it is based upon district payroll costs. The higher a district's salary costs, the higher its pension costs. Since wealthy districts can more readily afford higher teacher salaries and smaller class sizes, this

element provides a special subsidy to high wealth, high spending districts. The more they spend on teacher salaries, the more it costs the state in pension costs.

#### Minimum Aid

The former Bateman Act included a flat grant or minimum aid of \$132 per weighted pupil, which totalled \$234 million in 1974/75. All children were counted, or "weighted" according to their grade level, and children in the AFDC program, were counted as an additional .75, in recognition of the higher educational costs deemed necessary for children of poverty families. In finding the Bateman Act unconstitutional, the Court emphasized the unacceptability of this disequalizing provision.

The new act eliminated minimum aid for every pupil in the state. However the current expense equalization provision states that regardless of its wealth level, "no district shall receive less in current expense equalization support than 10% of the state support limit" (18A:7A-18C). In 1977/78, those wealthy districts whose state support ratios was less than 10% received minimum equalization aid of \$160 per pupil, or \$60 million.

The N.J. Supreme Court chose not to declare this provision unconstitutional, when viewed in the overall context of the Act. Their decision presumably was based on the fact that minimum aid was reduced from 29% of total Bateman aid to only 5%

of total chapter 212 aid. Nevertheless it is important to note that whereas the former minimum aid plan counted every child in the state and recognized needs differentials, minimum aid now goes only to the state's wealthiest districts.

#### Categorical Aid

State aid for categorical programs amounted to \$140 million in 1977/78. This amount covers the "extra cost" of special education, compensatory, bilingual and local vocational programs. The principal here is that the local district should pay for the normal costs of educating a typical child, but that the state should pay for the "extra costs" associated with necessary but high cost programs. State aid is calculated by multiplying the number of children in each state defined program, by an "extra cost factor," or weight, for that program, and then multiplying the total weighted pupil count by the state average net current expense budget for the prior year.

Since categorical program aid is not dependent on local property wealth, it is not wealth equalizing. However, the distribution of categorical aid to all districts is defended in this way.

Assume there are two districts of equal wealth (\$100,000 per pupil) and equal enrollment (10,000 children). District "A" has 1,000 children enrolled in special programs while District "B" has 3,000 children enrolled in special programs. Categorical aid is designed to provide each district

with the extra cost of providing special programs required by the State. Without this State aid, districts would be required to provide the services but would have to absorb the costs themselves, which would result in District B having either a substantially higher tax rate or less adequate programs compared to District A. There is a strong argument that the extra costs of state required programs should be paid by the state, regardless of district wealth, in order to avoid unequal treatment of equals.

However, although the concept of categorical aid is defensible, the "extra cost" factors themselves may not be. While the "extra cost" factors for special and vocational education were determined on the basis of historical cost, the state compensatory education (SCE) and bilingual factors had a far less rational origin.

For example, the SCE extra cost factor was calculated to be that number which would generate enough dollars to provide a program to those children who were eligible for, but unserved by Title I. The intention was to provide about \$300 per child. In fact, the plan now provides for about \$165 per child for an entirely different and larger student population. Not only is the amount per pupil less than what was originally planned, but current regulations do not require districts to spend all or even any of their new SCE aid for new SCE programs, nor do they specify how much or how little may be spent per pupil.

### Transportation Aid

The Bateman Act reimbursed districts for 75 percent of state approved transportation costs. The new state aid formula reimburses 100 percent. As a result, state aid for transportation increased from \$46 million in 1974/75 to \$87 million in 1977/78.

The logic behind transportation aid is that it is necessary to compensate sparsely settled districts with relatively high transportation costs per pupil, who would otherwise suffer higher tax rates or less adequate programs compared with other more typical districts. However, by contrast with the other categorical aid programs, for which the state provides only the "extra cost" above the state average cost for typical pupils, transportation cost is reimbursed in full. The reimbursement of normal transportation costs is essentially the same in its effect as a flat grant or minimum aid, or the state's assumption of pension costs. It is non-wealth equalizing and therefore of benefit to the state's property rich districts.

### IV. OTHER INADEQUACIES OF NEW JERSEY'S STATE AID PLAN

#### No Parameters for School Tax Rates

In New Jersey, there is no constraint whatsoever upon the local tax rate. It can be as low or as high as local voters prefer. Taxpayer choices can vary widely depending upon their income level, or the extent of their municipal overburden problem, or the proportion of families without children, or with



children in private school. As a result, a district's expenditures per pupil is determined not on the basis of pupil needs, but rather on the basis of taxpayer needs. Expenditures per pupil can be as low or as high as local taxpayers wish. This prerogative is contrary to the National Education Finance Project's principle that the greater the local tax leeway is, the less the equalization. The only legislative obstacle to continued wide variation in local expenditure is the expenditure cap provision of the new Act.

#### The Expenditure Cap

Chapter 212 contains a provision which limits district budget increases to a percentage of the prebudget year state average net current expense budget (NCEB) per pupil. The law also authorizes the Commissioner to permit budget increases in excess of the cap if necessary to meet enrollment increases or the "T&E" regulations of the Act.

The expenditure cap was designed to serve several purposes: 1) to keep a lid on expenditure increases so that the increase in state aid will lead to property tax reductions; 2) to prevent large, wasteful increases resulting from large state aid increases; 3) to limit state aid which is in part based upon local expenditures; and 4) to reduce disparities in per pupil expenditures among high and low spending districts by allowing higher expenditure increases among low spending districts.<sup>22</sup>

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<sup>22</sup>Budget Caps, (Trenton: Joint Committee on Public Schools, 1976) pp. 2-3.

In 1977/78 every district above the prior year average net current expenditure per pupil could increase its expenditures by \$108 per pupil. Districts spending below the state average could adjust that figure by the ratio of the state average expenditure to the district expenditure. As a result, a district like Irvington, which spent \$1,478 per pupil, had a cap of \$121. This was only \$13 more than Millburn which had a \$108 cap on an expenditure level of \$2,382 per pupil. At the rate of \$13 a year, it would take Irvington about 70 years to catch up to Millburn.

However the provision also allows all districts above the state average the same cap. So Irvington can never catch up to Millburn once it passes the state average.

The cap provision has actually guaranteed that high spending districts will always be able to maintain their expenditure lead over all districts below them. Despite this, the major criticism of the cap provision has come from high spending, not low spending districts, because in many cases the \$108 represented an increase insufficient to cover inflationary cost increases and maintain current exemplary program levels.

Although the cap provision did succeed in keeping down expenditure increases statewide, and thus fulfilled the first three goals, it has clearly failed to achieve the primary purpose of the new Act, the reduction of disparities in per pupil expenditures.

### Failure to Recognize Area Cost Differentials

The New Jersey plan lacks two of the elements cited earlier as essential to successful reform. It fails to recognize the high cost of non-education expenditures in urban centers as an impediment to fiscal equality, and it fails to recognize area cost differentials.

There are significant area cost differentials in New Jersey, resulting from differences in location or type of district. It simply costs more to buy the same resource in some places than others. Only one such problem, the impact of population sparsity in rural districts on transportation costs, is recognized by the current formula. However, urban districts also have special cost problems. Teacher salaries often tend to be higher due to early unionization and strong unions and higher proportions of teachers with long tenure and advanced degrees.<sup>23</sup>

Land and construction costs are also higher in cities, and urban districts incur higher costs due to 1) excessive vandalism and theft, 2) the cost of security guards and lunch programs, and 3) to higher substitute costs due to higher absenteeism.<sup>24</sup>

District costs also vary substantially according to geographic location. Teacher salary costs, which account for about

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<sup>23</sup> Betsy Levin; Thomas Muller; and Corazon Sandoval, The High Cost of Education in Cities, (Washington: The Urban Institute, 1973)

<sup>24</sup> Norman Drachler, "The Large City School System: It Costs More to do the Same", Equity for Cities in School Finance Reform, (Washington, D.C.: The Potomac Institute, 1973) pp.15-20.

75% of total expenditures and affect the wage levels of non-teaching personnel, are far higher in the northeastern portion of the state than in the south. For example, the average salary at the sixth year level for teachers in Hudson County is \$12,500, compared to \$10,450 in Salem County. This 20% difference means that the same per pupil expenditure in Hudson County buys larger classes or less experienced teachers than in Salem County.

The current formula contains certain provisions which tend to exaggerate rather than solve this problem. The expenditure cap which is based upon a statewide average expenditure level prevents adequate budget increases in high cost areas, while permitting unnecessarily high budget increases in low cost areas. Even more important is the fact that the state will reimburse districts only for expenditures per pupil below the 65th percentile of all district net current expense budgets. As a result, districts which are forced by factors beyond their control to have still higher costs, receive no state aid for those necessary higher costs.

#### Failure to Recognize the Problem of Municipal Overburden

Due to the combination of low tax base and high necessary municipal and county expenditures, some municipalities in New Jersey have non-school tax rates which are as much as four times the state average. Such municipalities often tend to have lower than necessary school budgets in order to minimize their total property tax rates. As a result, this "municipal

overburden" problem is inextricably intertwined with educational decisionmaking, and many scholars believe that school finance reform could not successfully occur in the absence of specific measures to combat this influence.

A report prepared for the Joint Education Committee of the New Jersey Legislature in 1974 included the following prescient comments.<sup>25</sup>

Municipal overburden describes a situation in which the need for government services outruns a community's fiscal capacity. ....Not all cities in the United States are overburdened, but an examination of the data for New Jersey's cities reveals that they have less than the state average equalized valuation per pupil, higher than the state average local tax rates, and spend more than the state average per capita on indispensable public services such as public safety and health and welfare.

Any school finance proposal which allows local districts to increase school expenditures by raising local taxes involves the possibility that municipal overburden will interfere with city childrens' opportunities for equal education. Overburdened districts will be less likely to raise local taxes for schools than communities which are not overburdened. (Underscoring not in original)

In a more recent report by economists Reschovsky and Knickman, the actual impact of the municipal overburden was described as follows:<sup>26</sup>

....because of the large size of the necessary "minimum bundles" of municipal services and the very limited resources available to provide those services many local school boards will face political pressure

<sup>25</sup> Aaron Gurwitz, Municipal Overburden and School Finance Reform In New Jersey, Prepared for the Joint Education Committee of the New Jersey Legislature, 1974, p.1.

<sup>26</sup> Andrew Reschovsky and James Knickman, State Financial Reform in New Jersey and the Urban Fiscal Crisis, (Trenton: The New Jersey Observatory of the New Jersey State Department of Education, 1976) p.19.

in their communities not to increase educational expenditures by the amount of the new state aid, but rather to substitute state aid for local revenue and in effect free that local revenue for property tax relief or for provision of some municipal services. Although the new funding formula reduces the "price" of educational services to many local communities, there is some initial evidence indicating that communities are not increasing levels of educational spending, presumably because of the heavy burden which the provision of other municipal services places on their residents.

The New Jersey Supreme Court also recognized this municipal overburden problem. Although it did not view the problem as "fatal to the facial constitutionality of the Act," the Court advised the state to be prepared to deal with local districts which face municipal overburden.

Despite the conclusions of these reports and the Court, the new finance plan contains no provision with which to deal with municipal overburden. The result has been that urban districts have utilized a larger portion of their increased school aid for property tax reduction than have other districts, and they have decreased per pupil expenditures relative to the other districts.

## V. THE FISCAL IMPACT

### Distribution of State Aid

There are many ways to look at the affect of a new aid formula. In the long run, one must look at the extent to which a revised state aid plan affects disparities in per pupil expenditures and tax rates. However, it is also common practice to examine who got what; who were the "winners" and "losers" in terms of state aid, and by how much. Inasmuch as the New Jersey reform efforts were initiated by low wealth urban districts, one would expect them to be the major beneficiaries of the new Act. That has not been the result.

Table 4 prepared by the Education Policy Research Institute (EPRI) of ETS, divides the state's districts into seven groups according to equalized valuation per pupil. It shows that the largest proportionate increases in state aid were enjoyed not by the lowest wealth districts, but by the state's moderate wealth districts, those in the third and fourth lowest wealth groups. The reason for this result is that whereas only the state's poorest districts were previously receiving wealth equalization aid, when the guaranteed tax base went up under the new plan, moderate wealth districts which had previously received little or no equalization aid, now received very large increases.

Although the urban districts received a proportionate increase in state aid of 39.5% compared to a statewide increase of total aid of 71.5%, average aid per pupil increased by \$377,

compared to a statewide increase of \$289. (See Table 5).

Individually, some urban and non-urban moderate wealth districts were the very biggest "winners" on both a proportionate and per capital basis. For example, while Newark with property wealth per pupil of \$24,722 received only a 13.2% increase of \$234 per pupil, urban Irvington, with property wealth per pupil of \$52,352, received a 289.1% increase, or \$556 more per pupil. Suburban Butler, with property wealth per pupil of \$64,868 increased its aid by 207.0%, or \$544 more per pupil.

Under the new plan, all districts received increases in state aid, even the very wealthiest. For example Ocean City, with \$368,896 in property wealth per pupil, 4.6 times the state average, received an increase in aid of 41.2%, or \$70 more per pupil. Deal, one of the highest spending districts in the state, with property wealth 5.4 times the state average, received a 14.9% increase of \$125 per pupil.

It is important to understand that contrary to popular expectations, and current belief, the state's lowest wealth districts were not the major beneficiaries of the new state aid formula, and the urban districts did not receive the lion's share of the increase in state aid. Of even greater importance is an understanding of the affects of the plan on per pupil expenditure disparities.



TABLE 4

DISTRIBUTION OF STATE AID TO EDUCATION, BY DISTRICT WEALTH, 1975-1977<sup>a</sup>

Equalized Valuation Per Pupil, 1975	Number of Districts	Total State Aid Per Pupil 1977	Percentage Change 1975-1977	\$ Amount of change 1975-1977
30,000	23 <sup>b</sup>	\$ 1,202	25.1%	\$ 39,861,000
30,000 - 49,999	99	948	70.8%	108,005,000
50,000 - 69,999	171	644	183.7%	155,250,300
70,000 - 89,999	134	369	83.3%	55,225,600
90,000 -109,999	64	307	62.4%	13,083,200
110,000 -129,999	29	323	58.3%	7,786,200
130,000 and over	55	321	48.6%	4,681,800
State Average or Total		658	75%	\$383,944,000

<sup>a</sup>Does not include county vocational schools.

<sup>b</sup>These 23 districts educate 13% of public school pupils.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey. September 1977.

DISTRIBUTION OF STATE AID FOR URBAN AND REPRESENTATIVE  
OTHER SCHOOL DISTRICTS 1975/76, 1977/78

	Equalized 1	Total State Aid			State Aid Per Pupil		
	Wealth	(in Thousands)					
	Per Pupil	2	3	%	4	5	%
<u>URBAN DISTRICTS</u>	<u>10/1/77</u>	<u>1975/76</u>	<u>1977/78</u>	<u>Increase</u>	<u>1975/76</u>	<u>1977/78</u>	<u>Increase</u>
Camden (Camden)	21,993	20,277	26,737	31.8%	955	1272	33.2%
Newark (Essex)	24,722	86,901	98,287	13.1	1154	1388	20.2
Hoboken (Hudson)	27,654	6,554	8,304	26.7	850	1192	40.2
Paterson (Passaic)	29,552	18,867	26,312	39.5	694	950	36.9
Trenton (Mercer)	30,623	16,310	21,928	34.4	946	1286	35.9
East Orange (Essex)	33,464	7,371	15,605	111.7	608	1196	96.7
Jersey City (Hudson)	35,774	27,406	38,718	41.3	718	1082	50.7
Asbury Park (Mon.)	37,654	2,584	3,811	47.5	839	1213	44.6
Orange (Essex)	42,819	2,993	5,283	76.5	628	1207	92.2
Passaic (Passaic)	44,461	4,343	7,535	73.5	512	913	78.3
Plainfield (Union)	47,873	4,672	9,220	97.3	522	973	86.4
Irvington (Essex)	52,352	1,622	6,312	289.1	206	762	269.9
Atlantic City (Atl.)	55,396	4,201	5,550	32.1	535	728	36.1
Long Branch (Mon.)	61,016	3,061	4,278	39.8	572	803	40.4
Perth Amboy (Midd.)	61,719	1,776	4,456	150.9	297	720	142.4
Elizabeth (Union)	70,740	3,114	10,923	250.8	208	741	256.3
New Brunswick (Midd.)	77,784	1,335	3,186	138.7	269	640	137.9
Bayonne (Hudson)	82,528	1,564	3,401	117.5	180	404	124.4
<b>Totals &amp; Averages</b>	<b>46,562</b>	<b>214,951</b>	<b>299,846</b>	<b>39.5</b>	<b>594</b>	<b>971</b>	<b>63.5%</b>
<u>Other Districts</u>							
Willingboro (Burl.)	33,655	10,642	15,866	49.1	745	1,258	68.9%
Phillipsburg (Warren)	49,179	1,425	2,692	88.9	438	848	93.6
Neptune Twp. (Mon.)	55,882	3,373	5,195	54.0	536	861	60.6
Butler (Morris)	64,868	431	1,323	207.0	235	759	223.0
Hamilton (Mercer)	74,204	2,728	8,391	207.6	187	587	213.9
Lakewood (Ocean)	84,785	1,108	2,369	113.8	222	446	100.9
Teaneck (Bergen)	98,739	1,534	2,191	42.8	227	331	45.8
Clifton (Passaic)	153,544	1,902	3,086	62.3	181	313	72.9
Millburn (Essex)	184,782	840	978	16.4	223	270	21.1
Ocean City (Cape May)	368,896	362	511	41.2	195	265	35.9
Deal (Mon.)	429,976	74	85	14.9	238	363	52.5
<u>Statewide</u>							
<b>Total &amp; Average</b>	<b>79,444</b>	<b>556,488</b>	<b>954,130</b>	<b>71.5%</b>	<b>381</b>	<b>670</b>	<b>75.9%</b>

- Sources: 1. S.D.O.E. State Aid Calculation for 1978/79, Nov. 7, 1977.  
 2. N.J.E.A. "Full Funding of Chapter 212 (P.L. 1975)" February 26, 1976.  
 3. S.D.O.E. State Aid Calculation for 1977/78.  
 4. N.J.E.A. Basic Statistical Data 1976.  
 5. Calculated from Data Contained in (3)

### Expenditure Disparities

Per pupil expenditures tend to be highly correlated with local district property wealth; in general, as wealth goes up, expenditures go up. The new law was designed to gradually eliminate these wealth associated expenditure disparities. In fact it is now worse. In 1975 the highest wealth districts spent \$2,213 per pupil, while the districts in the two lowest wealth categories spent \$1,592 and \$1,554 per pupil respectively, as shown in Table 6. Despite this already huge gap, the wealthiest districts increased their expenditures, proportionately and per capita, much more than did the low wealth districts. For example, the lowest wealth group increased its expenditures by 12.2% while the highest wealth group increased its expenditures by 17.2%. As a result, the gap between the lowest and highest spending groups actually increased between 1975 and 1977 from \$621 per pupil to \$807 per pupil.

Similar disparities exist for the state's urban districts, which are isolated for comparison in Table 7. These districts were spending \$11 less in 1974/75 than the state average per pupil; by 1976/77 they were spending about \$68 less per pupil despite a much higher concentration of children needing supplementary, high cost programs.

Some dramatic evidence of individual district disparities may be seen in Table 7. For example, Paterson, one of the state's lowest wealth, lowest spending districts, increased current expenditures per pupil by only \$82 between 1974 and 1976.

Deal, one of the wealthiest, highest spending districts, raised its current expenditures per pupil during that same time period by \$1,025, almost as much as Paterson spent in total for current expenditures per pupil.

The goal of the new law, to reduce expenditure disparities among school districts, has not been achieved. Some of the reasons for this result have already been discussed. The level of state aid is inadequate, and almost half of it is allocated to non-equalizing elements. Much of the state aid increase went to wealthier rather than poorer districts. It failed to recognize the municipal overburden problem and its impact on local decision making. Finally, it failed to recognize the importance of the NEFP criterion regarding the disequalizing effect of local tax leeway. As a result, although the new law failed to reduce expenditure disparities it did succeed in reducing school tax disparities.

#### Tax Rate Disparities

Under the Guaranteed Tax Base system, now used in New Jersey, a low wealth school district in planning its 1977/78 budget could act as if it had \$97,000 in property wealth behind each pupil, regardless of the actual amount. If it only had \$20,000 for example, the state would contribute 79% of the district's net current expense budget.  $(1.00 - 20,000 \div 97,000)$ . But that same district, when it develops its municipal budget, must do so on the basis of its actual low property wealth.

Therefore, it must either lower its services, relative to high wealth districts, or raise its non-school tax rate.

As a result, non-school tax rates are highest in low wealth, and lowest in high wealth districts. When it comes time for citizens to vote on school budgets, they don't look only at the school tax rate; they are concerned about their total tax rate. It is inevitable that low wealth districts with high non-school tax rates, are more likely to choose lower school budgets and lower school tax rates than are more wealthy districts, even though both may be below the state guaranteed tax base for education.

As can be seen in Table 6 that is precisely what happened in New Jersey. The increase in state aid led to an average statewide reduction in school tax rates of 11.6%. In the lowest wealth category, the school tax reduction was 27.7%, and in the next lowest 25.9%. Of course in the highest wealth districts, tax rates were already so low that they were reduced still further by only 1.1%.

This situation is even worse in the state's urban districts, where necessary expenditures for police, fire, health, and other similar expenditures are far higher than in suburban and rural districts, irrespective of property wealth levels. Due to this municipal overburden problem, urban districts as a group lowered their school tax rates between 1974 and 1977 by an average of 19.3% compared to the statewide average reduction of

TABLE 6

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EXPENDITURES PER PUPIL AND TAX RATES FOR SCHOOL DISTRICTS GROUPED BY PROPERTY WEALTH,  
1975-76 and 1977-78<sup>a</sup>

Equalized Property Valuation Per Pupil 1975	Total Expenditures Per Pupil			Equalized School Tax Rate		
	1975	1977(est) <sup>b</sup>	% Change	1975	1977(est) <sup>c</sup>	% Change
30,000	\$1592	\$1786	12.2%	2.31	1.67	-27.7%
30,000 - 49,999	1554	1869	20.3	2.45	1.79	-26.9
50,000 - 69,999	1666	1991	19.5	2.16	1.80	-16.7
70,000 - 89,999	1873	2154	15.0	2.01	1.94	- 3.5
90,000 -109,999	1871	2146	14.7	1.62	1.62	0
110,000 -129,999	2075	2363	13.9	1.43	1.39	- 2.8
130,000 and over	2213	2593	17.2	0.92	0.91	- 1.1
State Average	1739	2029	16.7	1.90	1.68	-11.6

<sup>a</sup>Does not include county vocational schools.

<sup>b</sup>Calculated using 1976 equalized pupil valuations.

<sup>c</sup>Calculated using 1976 enrollments.

Source: New Jersey State Department of Education Data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey. September 1977.

BUDGETED CURRENT EXPENDITURES PER PUPIL AND TAX RATES  
FOR URBAN AND REPRESENTATIVE OTHER SCHOOL DISTRICTS 1974/75, 1976/77

URBAN DISTRICTS	Equalized Wealth Per Pupil 10/1/77 <sup>1</sup>	Budgeted Current Operating Expenditures Per Pupil <sup>2</sup> 1974/75 <sup>3</sup>	1976/77 <sup>4</sup>	Tax Rates			
				1974 <sup>5</sup>		1977 <sup>6</sup>	
				School	Total	School	Total
Camden (Camden)	21,993	1203	1682	1.94	5.40	1.33	4.53
Newark (Essex)	24,722	1728	1709	2.69	5.65	1.45	5.77
Hoboken (Hudson)	27,654	1342	1673	2.31	6.77	1.77	5.47
Paterson (Passaic)	29,552	1106	1188	1.78	3.49	1.32	3.76
Trenton (Mercer)	30,623	1393	1639	2.08	5.89	1.73	5.37
East Orange (Essex)	33,464	1473	1555	2.71	7.74	2.09	7.63
Jersey City (Hudson)	35,774	1336	1579	2.22	5.36	1.57	5.96
Asbury Park (Mon.)	37,654	1652	1877	2.39	5.48	2.43	6.26
Orange (Essex)	42,819	1719	1959	2.70	7.37	2.24	6.89
Passaic (Passaic)	44,461	1196	1428	1.78	3.49	1.51	3.70
Plainfield (Union)	47,873	1492	1706	2.59	4.71	1.89	4.01
Irvington (Essex)	52,352	1277	1478	2.11	5.08	1.71	5.08
Atlantic City (Atl.)	55,396	1045	1286	1.37	5.92	1.24	6.75
Long Branch (Mon.)	61,016	1561	1779	2.46	3.72	2.00	3.81
Perth Amboy (Midd.)	61,719	1434	1670	1.74	3.01	1.53	3.11
Elizabeth (Union)	70,740	1471	1783	2.09	3.87	2.07	3.93
New Brunswick (Midd.)	77,784	1906	2091	1.95	3.34	2.23	3.78
Bayonne (Hudson)	<u>82,528</u>	<u>1370</u>	<u>1623</u>	<u>1.81</u>	<u>4.67</u>	<u>1.56</u>	<u>4.29</u>
Unweighted Average	46,562	1428	1650	2.18	5.13	1.76	5.00
<u>Other Districts</u>							
Willingboro (Burl.)	33,655	1329	1785	2.34	3.52	2.15	3.37
Phillipsburg (Warren)	49,179	1138	1459	2.04	3.80	1.56	2.70
Neptune Twp. (Mon.)	55,882	1303	1635	2.12	3.63	1.89	3.15
Butler (Morris)	64,868	1344	1695	2.32	3.19	1.94	2.69
Hamilton (Mercer)	74,204	1162	1512	1.98	3.08	1.69	2.75
Lakewood (Ocean)	84,785	1577	1730	2.15	3.30	1.89	3.02
Teaneck (Bergen)	98,739	1934	2289	2.24	3.84	2.57	4.20
Clifton (Passaic)	153,544	1281	1450	1.02	2.06	.92	2.03
Millburn (Essex)	184,782	2013	2366	1.45	3.31	1.43	3.38
Ocean City (Cape May)	368,896	1467	1943	.63	2.08	.58	1.97
Deal (Mon.)	429,976	2559	3584	1.22	2.70	.91	2.09
<u>Statewide</u>							
Weighted Average	79,444	1439	1718	1.89	3.28	1.65	3.01

- Sources: 1. S.D.O.E. State Aid Calculation for 1978/79, Nov. 7, 1977.  
 2. Current Operating Expense Budget Less Tuition Revenue ÷ Resident Enrollment.  
 3. 1974/75 School District Budgets submitted to S.D.O.E. - calculated by the use of the SFEMS system, of the E.P.R.I. of E.T.S.  
 4. 1976/77 School District Budgets - Calculated from Data presented in the S.D.O.E. state aid calculations for 1977/78.  
 5. NJEA Basic Statistical Data 1975.  
 6. NJEA Basic Statistical Data 1977.

12.7%.<sup>27</sup> At the same time, while the state average non-school tax rate went down from \$1.39 to \$1.36, the urban non-school tax rate went up from \$2.95 to \$3.24.<sup>28</sup> In effect, a large part of the increased state school aid to urban districts helped to finance increased municipal and county tax rates. Urban districts which were spending 42% of their total tax rate on education in 1974/75, were spending only 35% in 1977/78. By comparison, the state average for all districts was 58% in 1974/75 and 55% in 1977/78.

The conclusion is clear. Although the New Jersey Supreme Court was concerned with equity for children, not taxpayers, to date the major beneficiaries of the new law have been the taxpayers in the state's low wealth and urban school districts.

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<sup>27</sup> See Table 7. The Urban school districts reduced their average school tax from \$2.18 to \$1.76, while the state average school tax rate declined from \$1.89 to \$1.65.

<sup>28</sup> See Table 7. The state average non-school tax rate of 1.39 in 1974 is the difference between the total tax rate of \$3.28 and the school tax rate of \$1.89; in 1977/78, it is the difference between \$3.01 and \$1.65. The urban non-school tax rate in 1974 is the difference between \$5.13 and \$2.18; in 1977 it is the difference between \$5.00 and \$1.76.



## VI. WHAT OTHER STATES HAVE DONE

In a recent New York Times interview,<sup>29</sup> William Wilken of the National Conference of State Legislatures stated that the key to progress in reducing expenditure disparities among school districts seems to lie in how states change their systems. When systems provide a guaranteed tax base, but do not require minimum expenditures or tax levels, disparities tend to persist. Wisconsin left tax and spending levels up to each district and despite the enactment of reforms in 1973, per pupil expenditure disparities did not change between 1972 and 1975. By contrast, Iowa, with a high level foundation plan and a required tax effort, reduced per pupil disparities by 1975 to \$94 per pupil. Maine achieved similar results, due to mandated minimum spending levels.

It seems that "left to their own devices, wealthy districts will continue to provide generous support for schools while poorer ones have trouble doing so, even when a higher tax rate brings them more subsidies. In short, a foundation approach narrows spending differentials but taxing power equalizing by itself does not."<sup>30</sup>

Some states have tried to achieve equity through the "leveling down" impact of tax rate limits. While New Mexico has a single allowable tax rate, with no local leeway, Florida has a two mill leeway above a mandatory six mill rate. Colorado, Iowa and Kansas require taxpayer approvals beyond certain levels, while

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<sup>29</sup> Edward B. Fisk, "Tax Reform: Does it Balance Rich and Poor", New York Times Fall Survey of Education, November 13, 1977, pp.1& 22.

<sup>30</sup> Ibid.

other states have established state review committees to consider higher budget requests. However, according to Wilken, these spending lids have not successfully inhibited expenditure increases and have been discarded by Illinois, Maine and Wisconsin as a result of political pressure. Nevertheless, Minnesota will this year begin to "recapture a portion of the excess revenues collected by school districts when they tax themselves at a maximum levy allowed under the foundation program."<sup>31</sup>

Each of the demonstrated deficiencies in the New Jersey state aid plan has been dealt with in one state or another. For example, the level of state aid in New Jersey is only 41% compared to a nationwide average state contribution of 50%. Other states contribute as much as 87% of the total cost of public school education. Only 53% of New Jersey's state aid consists of wealth equalizing elements, compared to 68% nationwide. In ten states, the portion of state aid used for wealth ranges between 90% and 100% of total state aid.

New Jersey's building aid plans are inadequate in several respects: 1) the level of aid is too low; 2) only a small portion of state aid recognizes relative needs differentials; 3) because chapter 212 aid is based on and limited to a percentage of prior year expenditures, low wealth districts must incur relatively high tax increases when they increase their capital

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Finance Facts. (Denver: Education Finance Center of the Education Commission of the State, 1977), p.4. In a school funding system which includes a recapture provision, when the tax rate multiplied by the district's property wealth yields revenue in excess of the required expenditure per pupil, the state will recapture the excess.

expenditures. Although many states have far better programs than New Jersey simply because the level of aid is much higher, more than seven times higher per pupil in Hawaii, only two states have fully met their school building needs. Florida and Maryland have placed all district school buildings programs under state control and funding, and determine building priorities on a statewide basis.

Several other deficiencies in the New Jersey plan have been addressed by other states. For example, Florida has an adjustment for geographic cost differentials. Colorado, Michigan, Maryland and other states provide additional aid for high population density districts, while Michigan includes a special adjustment in the school aid formula for districts with excessive non-school tax rates. Kansas, Maryland and other states define ability to pay as the combination of property wealth and personal income, rather than property wealth alone.

Today, most state plans call for a minimum expenditure per pupil, and a minimum tax rate. Many state plans include a maximum tax rate, and some, like Minnesota, even include a provision to "recapture" the excess revenues generated by very wealthy districts. Although recent analysis of the state reforms of the seventies make it clear that successful reform requires such programs, the New Jersey "reform" plan requires neither minimum expenditures nor minimum or maximum tax rates.

## VII. CONCLUSIONS

In 1970, a group of low wealth, urban districts, initiated the Robinson V. Cahill case. As a result, the New Jersey Supreme Court found the state's public school funding system to be unconstitutional. It ordered the legislature to develop a new system which would provide an equal educational opportunity for every child, regardless of socioeconomic characteristics or geographic location. The Public School Education Act of 1975 was the legislative response. Since the Act's implementation relative expenditures per pupil in the state's low wealth and urban districts have actually declined.

The Act has failed to meet the Court's goals, because it failed to adequately recognize essential components of successful school finance reform.

The level of state aid is inadequate. Only 41% of total school expenditures is provided by the state of New Jersey, compared to a national average of 50%. The composition of state aid is inadequate. The portion of state aid devoted to wealth equalizing elements is only 53% compared to a national average of 68%. The new Act fails to require minimum expenditure levels, or minimum and maximum tax rates. It fails to recognize the problem of area cost differentials and municipal overburden. As a result of these inadequacies, the Act has failed to make even a miniscule dent in wealth related per pupil expenditure disparities. In fact, urban per pupil expenditures have actually declined

by 57 dollars per pupil relative to the state as a whole, during this period of "reform". At the same time, the average expenditures per pupil of the state's 23 lowest wealth districts, changed from \$147 below the state average in 1975, to \$243 below the state average in 1977. One chief beneficiary of the new state school aid formula has been the taxpayer in low wealth and urban districts. Under the pressure of huge municipal tax rates, these districts have used their increased state school aid to reduce school tax rates. At the same time, both the taxpayers and the children in moderate wealth districts benefited as those districts enjoyed both the largest expenditure increases along with substantial tax reductions.

The inadequacies of the new school finance plan were predicted by urban advocates before the law was passed. Despite their findings, the Court accepted the new law as facially constitutional, because the state argued that the planning and review process embodied in the law would meet constitutional requirements.

The Court commented on the crucial role of the Commissioner and State Board in carrying out the plan "....., so that over the years and throughout the state each pupil shall be offered an equal opportunity to receive an education of such excellence as will meet the constitutional standard." The Court emphasized the Commissioner's authority to examine the causes of local failure and the power to mandate changes in procedure and local budgets to overcome those failures. So far

not a single program or budget in New Jersey has been rejected by the Commissioner for its inadequacy. Not even the lowest achieving or lowest spending districts in the state have been forced to improve their programs or increase their budgets. In this contest between the legal power of the Commissioner and the inexorable pressure of economics, the iron hand of economics is the clear victor to date.

#### VIII. RECOMMENDATIONS FOR CHANGE

Improvements to the current state aid plan require either an increase in the level of state aid, or a shift in the composition of that aid from property rich to property poor school districts, or a combination of the two. Both choices are unpleasant to those citizens who are the major beneficiaries of the present system. An increase in state aid would probably result in an increase in state income tax rates, a disadvantage to high income families. Switching current state aid from property rich to property poor districts would necessitate an increase in the property taxes of the wealthy districts in order to maintain current expenditure levels. Although both alternatives may be unpleasant to high income families in property rich school districts, one or a combination of both must take place, because the present system has failed, and lacks the characteristics necessary for ultimate success.

If the choice is to increase the level of state aid, it is not unreasonable to suggest that New Jersey raise its state aid ratio from the present 41% of total state and local expenditures, to the national average of 50%, or to the 54% average contribution of those states which like New Jersey have undergone major reform efforts. A 50% contribution would require an increase in state aid of \$276 million, while a 54% contribution would require an increase of about \$400 million.

However, as stated earlier, successful reform is determined not only by the level of state aid but by its composition. Therefore, if the legislature were unwilling to increase state aid by \$276 to \$400 million because it would necessitate unpopular tax increases, it could change the current composition of state aid, by reducing the amount of aid given for non-equalizing elements which benefit the state's wealthiest districts, and by increasing state aid for wealth equalizing and needs recognizing elements.

The composition of state aid could be substantially improved by two changes: eliminate minimum equalization aid; and have the local districts pick up the cost of pensions which is now paid for by the state.

Minimum equalization aid is essentially a flat grant, the least desirable form of state aid. Even worse, the New Jersey flat grant is given only to the state's wealthiest districts. In 1977/78, it cost the state \$60 million.

Although the transfer of pension costs of \$246 million to local districts would increase local budgets, the subsequent increase in equalization and other needs recognizing aid would more than offset this increase for a large majority of the state's districts.

The elimination of minimum aid and pensions would provide \$306 million which could be used to fund such improvements as: an increase in the guaranteed tax base and equalization aid; an improved building aid plan with an increased recognition of differential needs; an adjustment to assist districts which evidence severe municipal overburden; an adjustment which recognizes area cost differentials; and an increase in state support for compensatory education.

In order to make certain that the beneficiaries of these changes use their increased aid for program improvement rather than tax relief, it is strongly recommended that the current plan be modified to include a mandated minimum school tax rate or per pupil expenditure level.

It is also recommended that the current expenditure cap provision be modified in order to make it possible for low spending districts to catch up to high spending districts within a reasonable period of time.

Each of the recommended changes would be of benefit to children in low wealth and urban school districts. How much of the \$306 million should be allocated to each recommendation requires further analysis. However, for purposes of illustration it is of value to see what would have been the impact on 1977/78



state aid, of a decision to use all of the \$306 million to increase the guaranteed tax base and equalization aid. It has been estimated by one S.D.O.E. official that with \$306 million, the guaranteed tax base could have been increased from \$97,000 to approximately \$135,000 per pupil. The impact of this change<sup>32</sup> is shown in Table 8 for six representative districts with varying levels of property wealth per pupil.

As a result of the increase in the guaranteed tax base from \$97,000 to \$135,000, Lakewood, for example, increased its State Support Ratio from 15.4% to 39.2%. At the same time, Lakewood's Net Current Expense Budget increased due to the transfer of pension costs from the state to the district. However, for Lakewood, a district somewhat above average property wealth, the increase in equalization aid exceeded the additional pension cost by \$257 per pupil.

Camden, a very low wealth district, benefitted by \$53 per pupil, while Neptune Twp., a below average wealth district, benefitted by \$157 per pupil.

Although moderately wealthy Little Egg Harbor received an increase in equalization aid, it was almost all offset by their increased pension costs. Fairfield's state support ratio of 5.8% was less than the minimum equalization aid

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<sup>32</sup>An increase in the State Support Ratio results in an increase in equalization aid for current expense and for capital outlay and debt service. For purposes of simplicity, only current expense equalization is shown in Table 8.

TABLE 8

## ESTIMATED IMPACT OF INCREASE IN GUARANTEED TAX BASE ON SELECTED DISTRICTS

	<u>Camden</u>	<u>Neptune Twp.</u>	<u>Lakewood</u>	<u>Little Egg Harbor</u>	<u>Fairfield</u>	<u>Brigantine</u>
Equalized Property Wealth/Pupil <sup>1</sup> 10/1/76.	19,867	51,309	82,053	104,509	127,095	163,874
State Support Ratio 1977/78 <sup>1</sup>	79.5	47.1	15.4	10.0	10.0	10.0
Proposed State Support Ratio <sup>2</sup> Based on \$135,000 G.T.B.	85.3	62.0	39.2	22.6	5.8	0.0
Current Operating Expense Budget <sup>1</sup> Per Pupil 1976/77.	1,682	1,730	1,730	1,540	1,618	1,530
Net Current Expense Budget Per <sup>1</sup> Pupil 1976/77	1,308	1,453	1,484	1,325	1,291	1,235
Plus: Pension Costs <sup>3</sup>	153	157	157	140	147	139
Adjusted Net Current Expense Budget Per Pupil 1976/77	1,461	1,610	1,641	1,465	1,438	1,374
Proposed Equalization Aid <sup>4</sup>	1,246	998	643	331	83	0
1977/78 Equalization Aid <sup>1</sup>	1,040	684	229	165	138	165
Increase (Decrease) Aid	206	314	414	166	(55)	(165)
Less Pension Increase	153	157	157	140	147	139
Net Increase (Decrease) in Aid	53	157	257	26	(202)	(304)
School Tax Rate 1977 <sup>5</sup>	1.33	1.89	1.89	1.36	1.30	.82
Total Tax Rate 1977 <sup>5</sup>	4.53	3.15	3.02	2.31	3.03	2.65

<sup>a</sup> State aid in 1977/78 included minimum equalization aid of \$60 million and pension costs of \$246 million. By transferring the combined total of \$306 million to an increase in equalization aid, it is estimated that the guaranteed tax base could have been increased from the \$97,000 used in 1977/78, to \$135,000. The State Support Ratio is increased but districts must now absorb pension costs previously paid for by the state. The net effect of these two changes is demonstrated for each of the 6 districts in this table.

1) N.J. S.D.O.E. State Aid Calculation 1977/78.

2) 1 - (Equal Wealth/Pupil ÷ \$135,000).

3) The amount shown is an estimate calculated by applying the statewide average relationship between pension cost and current operating expense per pupil of 9.1% in 1977/78 to each district's current operating expense per pupil.

4) Proposed State Support Ratio x Adjusted Net Current Expense Budget Per Pupil.

5) N.J.E.A. Basic Statistical Data 1977.

of 10% received under the current plan. As a result, Fairfield had a net loss of \$202 per pupil. Brigantine, the wealthiest of the six districts, has property wealth in excess of the \$135,000 guaranteed tax base, and therefore receives no equalization aid under the proposed plan. Its net loss of \$304 per pupil could be recovered by an increase in its school tax rate from \$.82 to about \$1.00, still far below the state average school tax rate of \$1.65 in 1977.

From the results illustrated in Table 8, it is evident that using the \$306 million the state now provides in minimum aid and pension costs to fund an increase in the guaranteed tax base, would be of benefit to all districts below about \$105,000 in property wealth per pupil, a very large majority of the state's districts. The greatest beneficiaries would be districts of about average wealth. Districts with property wealth in excess of about \$105,000 per pupil would receive less state aid than that received under the present formula, but could readily raise the difference with modest increases in their school tax rates, and still enjoy tax rates far below the state average.

It must be noted in closing, that simply raising the guaranteed tax base will not solve the problems of the state's low wealth and urban school districts. In order to meet their needs, the composition of state aid must be altered to include adjustments for municipal overburden and area cost differentials;

an improved building aid plan which recognizes facility needs differentials; and an increase in state aid for compensatory education. Finally, in order to insure that the benefits ultimately intended for children are not utilized for the exclusive benefit of taxpayers, it is essential to establish minimum tax rates or expenditures per pupil at a level which guarantees a "thorough and efficient" system of education for every child in the state.

## APPENDIX

## Glossary of School Finance Terms

Assessed Valuation	The total value of property subject to the property tax in a school district.
Categorical Aid	State aid which is designated for specific programs, such as transportation, special education, vocational education and compensatory education.
Current Operating Expenditures	Expenditures for the daily operation of the school program, including administration, instruction, transportation and plant maintenance.
Correlation	A statistical term indicating the relationship between two variables. A positive correlation exists when one variable increases as the other increases. A negative correlation exists when one variable increases as the other decreases.
Equalization Formula Aid	Financial assistance given by a state to a local school district to equalize the fiscal capacity of the district with all other districts below a specified fiscal capacity level.

Equalized Assessed  
Valuation

Most districts assess property at less than current value, and the extent of underassessment varies widely among school districts. Therefore states calculate an assessment ratio for each district by comparing the assessed value of sold property to its selling price. The assessed value is then divided by the assessment ratio to arrive at the equalized assessed valuation, which can then equitably be used for state aid calculations which rely upon local district property wealth.

Equalized Assessed  
Valuation Per Pupil

The equalized assessed valuation of a school district divided by its student count. It is the most commonly used measure of school district wealth.

Expenditure  
Uniformity

An equity standard which requires virtually equal expenditures per pupil or per weighted pupil for all students in a state.

Fiscal Neutrality

An equity standard which states that expenditures per pupil can not be determined fundamentally by local school district wealth.

Flat Grant Program

A non-equalizing state aid program which allocates an equal sum to each student in the state, regardless of local district property wealth.

Foundation  
Program

A state equalization aid program which requires districts to levy a specified minimum tax rate, and which in turn guarantees a specified foundation level of expenditures for each student. The state contributes the difference between the foundation amount and the local revenue raised at the minimum rate. In recent years some states have implemented foundation levels at average per pupil expenditure levels, as compared with the very low levels historically associated with such programs.

Full State  
Assumption

A state school finance program, found only in Hawaii, in which the state pays for all education costs.

Municipal  
Overburden

The above average non-education services which central cities must provide, such as welfare, health, police, fire and sanitation. This burden reduces the ability of central city school districts to raise education dollars. Inasmuch as central cities also have disproportionately high numbers of children with high cost educational needs, such school districts are severely disadvantaged in providing educational services.

School District  
Tax Rate

The term used to designate the local district school property tax rate, generally stated as the amount to be paid for each \$100 of assessed valuation. If given in mills, the rate indicates the amount to be paid for each \$10. of assessed valuation. For example, a tax rate of \$1.60 per hundred dollars of valuation is equivalent to 16 mills per ten dollars of valuation.

State Aid For  
Current Operating  
Expenses

The sum of the equalization formula aid and the various categorical program aids.

Weighted Pupil  
System

A state aid system in which different categories of students are counted differently based upon estimated differences in the relative costs of their educational programs.



The following terms describe the most commonly used State school aid formulas.

**Flat Grant**

State Aid = (Flat Grant Amount) x (Pupil Enrollment) or (Number of Teachers) or (Number of Classroom Units). This method does nothing to equalize district expenditures because expenditures above this level are dependent upon local decisions which in turn depend upon local property wealth, income and other factors.

**Minimum Foundation Program**

State Aid = (Foundation level per pupil) x (Number of pupils) - (State Mandated Tax Effort) x (Local Wealth). Developed by Strayer & Haig, this is the most widely used state aid formula, however its equalization impact varies depending upon the level of the foundation and mandated tax rate. In general both have been very low. Thus low property wealth districts seeking to increase their expenditures above the foundation level ("local leeway") must tax themselves at much higher rates to raise the same dollars per pupil as districts with higher property wealth per pupil.

Guaranteed Tax Base      State Aid = [(State Guaranteed Wealth Base Per Pupil) x (Pupil Enrollment)] - [(District Wealth) x (Effective Local Tax Rate)].

The following terms are included in Section 18A:7A-3 of the Public School Education Act of 1975:

"Guaranteed valuation per pupil"	means for the calculation of State support for the school year 1976-77, 1.3 times the State average valuation per pupil, and for all school years thereafter, 1.35 times the State average valuation per pupil, rounded to the nearest thousand dollars.
"Net current expense budget"	means the balance after deducting (1) State support for categorical programs pursuant to section 20 of this act, (2) the transportation amount in the current expense budget and (3) all other revenue in the current expense budget except the amount to be raised by local taxation, equalization State support, and State support for approved transportation.
"Pre-budget year"	means the school year preceding the year in which the school budget will be implemented.

"State average net  
current expense  
budget per pupil"

means the quotient resulting from dividing the total net current expense budget of all districts in the State by the total resident enrollment in the State.

"State support  
limit"

means the sixty fifth percentile net current expense budget per pupil for the pre-budget year when all districts figures are ranked from low to high.

"State support ratio"

is calculated as follows: Divide the district equalized valuation per pupil by the guaranteed valuation per pupil and subtract the quotient from 1.0000.